

# AN AUTONOMOUS INDIA: THE ADMINISTRATIVE ISSUES

by

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*with the aid of the Research Staff of the Foreign Policy Association*

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## INTRODUCTION

N EARLY four years have passed since the House of Commons, on November 25, 1927, approved the appointment of the Indian Statutory Commission, headed by Sir John Simon, thereby initiating a new period of constitutional advance in India. Events thus set in motion, however, have far outrun the course of reform originally charted. On the one hand, the omission of Indian representatives from the Commission turned the All-India Congress into an opposition eventuating in a renewal of the civil disobedience movement throughout British India on a scale larger than any hitherto achieved. On the other, the Simon Commission felt itself impelled to recommend the summoning of a conference of British and Indian leaders for the mutual consideration of the proposals to be finally submitted to Parliament.<sup>1</sup> The Simon Report, issued in separate volumes on June 10 and 24, 1930, outlined a scheme of provincial but not central autonomy for British India.<sup>2</sup> The nature of this report intensified Nationalist suspicions regarding the proposed reforms. Unable to satisfy itself that the framing of a scheme of responsible government was in prospect, the Congress party eventually refused to attend the round-table conference, which convened in London on November 12, 1930.<sup>3</sup>

The preliminary sessions of the conference were confronted by the revolutionary proposal of the Indian Princes to the effect that they were prepared to enter a federal government to include both the Indian States and the provinces of British India, provided that the connection with the Crown remained

unimpaired. Upon this basis, the various subcommittees of the conference were enabled to outline the essentials of a federal constitution for India providing, in addition to provincial autonomy, for responsibility at the centre except for certain safeguards retained by the Governor-General in fiscal, military, and external affairs.<sup>4</sup> On January 19, 1931 the conference adjourned for the purpose of consulting Indian opinion upon the work accomplished. Shortly thereafter, Mahatma Gandhi and his associates on the working committee of the All-India Congress were released from jail. The returning delegates from the conference pressed the advantages of the new constitution outlined at London, and eventually Mahatma Gandhi and Lord Irwin, the Governor-General, were brought face to face in an extended series of conversations during February 1931. The resulting agreement, signed March 4, 1931, provided for the discontinuance of civil disobedience and the release of imprisoned Congressmen, and for the participation of the Congress party in further discussions of the constitutional proposals elaborated at London.<sup>5</sup> Of the scheme there outlined, federation, Indian responsibility, and safeguards "in the interests of India" were accepted as essential parts. Four weeks later, Gandhi succeeded in carrying full ratification of the Gandhi-Irwin agreement at a special session of the All-India Congress, meeting at Karachi, and was appointed sole Congress delegate, with plenipotentiary powers, to the extended sessions of the round-table conference.<sup>6</sup> The important federal structure subcommittee, to which Gandhi has been ap-

1. *Indian Statutory Commission* (Chairman, Sir John Simon; London, H. M. Stationery Office, 1930), Vol. I, Cmd. 3568, Preface, p. xxii-xxiv.

2. T. A. Bisson, "The Crisis in India: Its Constitutional Basis," *Foreign Policy Association Information Service*, Vol. VI, No. 19, November 26, 1930, p. 354-355.

3. *Ibid.*, p. 346.

4. "The Constitution is Submitted to India," *F. P. A. News Bulletin*, Vol. X, No. 13, January 30, 1931.

5. "The Gandhi-Irwin Truce," *ibid.*, Vol. X, No. 19, March 13, 1931.

6. "Gandhi Leads the Nationalists to London," *ibid.*, Vol. X, No. 22, April 3, 1931.

pointed, opened its preliminary discussions on September 14. It is expected that the conference will be assembled in plenary session early in November.

It is the purpose of this report to sketch the background of the civil and fiscal issues

in British-Indian administration with which the conference has to deal, and to point out the progress thus far made toward their settlement. A further report is in preparation covering the military problem involved in the establishment of an autonomous India.

### CIVIL ADMINISTRATION

The broadest principle of constitutional change operative in British India within recent years has been the gradual retreat of autocratic before democratic rule. When the Crown assumed responsibility for the governance of India in 1858, control over the Indian administration was effectively centred by Parliament in the Secretary of State for India and his Council, constituting, with the permanent secretariat, the India Office in London. Increasingly wide delegations of the Secretary of State's authority to the Government of India proved necessary, however, and this body in turn was forced to confer additional powers upon the provincial governments. Paralleling this process of administrative devolution was the growth from below in the numbers and authority of the elected members of the central and provincial legislatures in India.<sup>7</sup> As these elective bodies asserted themselves at the centre, in the provinces, and in the local areas, they have gradually modified the rigid character of the control exercised by the British-Indian administrative bureaucracy.

When the Montagu-Chelmsford Reforms were introduced in 1921, British India was still governed by a highly centralized administration with effective power centred in the hands of the Governor-General in Council. The most significant aspect of the Reforms was the devolution of authority from the centre to the provinces, where the elected element in the legislatures had already become predominant,<sup>8</sup> thus enabling the transfer of certain provincial departments to responsible Indian Ministers.<sup>9</sup> A similar change has also been occurring on a lower level within the provinces, where self-governing bodies in the local areas have grad-

ually assumed responsibilities formerly borne by administrative officers in the All-India Services working under the provincial governments. Furthermore, the introduction of an increasing number of Indians into the higher posts of the administrative services during the past decade has tended to overcome the virtual monopoly of these positions long held by British officials. These developments, however, have not yet reached the stage of responsible government, since the Secretary of State still retains ultimate legislative and executive authority, as well as control over a considerable portion of the superior administrative officers, since the central and provincial executives (with the exception of the provincial Ministers) are not removable by the Indian legislatures, and since these executives have power in the last resort to enforce such legislation as they may deem necessary.

### THE ADMINISTRATIVE SYSTEM

The administrative system of British India, originally little more than a revenue-collecting and judicial agency, gradually developed specialized departments dealing with such matters as education, public health, and irrigation, each of which became one of the numerous administrative services of the present government.<sup>10</sup> The great bulk of Britain's constructive work in India has been poured through the mould of these civil services, in which thousands of Britishers have brought the administrative experience and applied science of the West to bear upon India's problems.

There are three broad classes of administrative officials in India, those in the superior services, those in the provincial services, and those in the subordinate services. The latter two classes have long been almost entirely manned by Indians; the superior

7. For a survey of the historical development of the political institutions of modern India, cf. Bisson, "The Crisis in India: Its Constitutional Basis," cited, p. 348-350.

8. Under the Morley-Minto Reforms of 1909.

9. Bisson, "The Crisis in India: Its Constitutional Basis," cited, p. 350-352. Note especially the distinction between the "reserved" and "transferred" departments of provincial administration introduced by the Reforms.

10. Cf. *Indian Statutory Commission*, cited, Vol. I, p. 263-280; Vol. V, p. 805-822.

services, however, have been invaded by Indians in any large number only during the past decade. At present, out of some 5,250 civil servants in the superior services, approximately 3,500 are British and 1,750 are Indian. These men hold the controlling posts throughout the civil administration of British India. They are divided among the Central Services and among the All-India Services. The former deal with matters under the direct control of the central government, such as relations with the Indian States, frontier affairs, the railways, posts and telegraphs, customs, audit and accounts, survey, and mint. The great bulk of the superior officers, however, comprising some 4,000 out of the total of 5,250, are engaged in the All-India Services, which supply the higher officials in provincial and local administration. The All-India Services, moreover, are subdivided into the reserved services (civil, police, irrigation, and forest), controlled by the Governor and his Executive Council, and into the transferred services (educational, agricultural, roads and buildings, and veterinary), controlled by Indian Ministers responsible to the provincial legislatures. The superior officers in the higher Central Services and in the All-India Services are recruited on the broadest competitive basis both in England and in India by the Secretary of State, who himself controls the conditions of their service and guarantees their special rights and privileges. The latter include the right of appeal to the Secretary of State, who alone may dismiss them; the right to a fixed salary and pension; and the privilege of retiring prematurely on a pension proportionate to their actual length of service.<sup>11</sup>

#### INDIANIZATION OF THE SERVICES

The problem of Indianizing the superior services is therefore two-fold: the remaining British officials must be replaced by Indians, and the control exercised by the Secretary of State must be devolved upon the central and provincial governments in India. Progress in these respects is now being made along lines marked out by the report of the

Lee Commission on the superior services in 1924. A number of the more important Central Services are still controlled by the Secretary of State, with Indianization proceeding under fairly definite ratios.<sup>12</sup> The bulk of the Central Services, however, has been delegated to the control of the Government of India. Recruitment for these services is now practically confined to Indians, and Indianization will become complete as the remaining British officers retire. The situation with regard to the All-India Services is approximately the same. The reserved services are still controlled by the Secretary of State, with Indianization proceeding under ratios roughly designed to equalize the British and Indian personnel by 1939. The progress of Indianization under these ratios is estimated as follows:<sup>13</sup>

**TABLE I**  
**Indianization Rate for the**  
**Reserved Services**

	January 1, 1929		January 1, 1939	
	British	Indian	British	Indian
Civil Service* .....	894	367	715	643
Police Service .....	564	128	434	251
Irrigation Service ..	255	240	229	270
Forest Services .....	134	76	126	112

\*Includes the district officers.

On the transferred side, however, power has been delegated to the provincial governments to recruit new Provincial Services of a high standard to replace the former All-India Services as their present members gradually retire. The services thus being reorganized comprise the educational, agricultural, roads and buildings, and veterinary services.<sup>14</sup> Indianization of these services will be complete, except in so far as Indians may wish to recruit Europeans for special reasons.

Controversy over the Indianization of the superior services centres chiefly upon the

12. Control is retained over the ecclesiastical and political departments, railway engineers, railway revenue, posts and telegraphs, and portions of the survey and mint.

13. *Indian Statutory Commission*, cited, Vol. I, p. 270. The civil and police services are usually termed the security services. The civil service chiefly includes administrative officials, such as the district officer, and judges in the Sessions and High Courts. Cf. p. 282.

14. Control over the medical service was retained by the Secretary of State, since its officers largely hold King's Commissions, although in practice some half of them engage in civil administration. The numbers of these latter were somewhat curtailed, thus affording the provinces the chance to make a start toward developing their civilian medical services.

The delegations of power to the central and provincial governments by the Secretary of State were made subject to certain general conditions designed to safeguard the rights of existing members of the superior services, to ensure impartiality in the first appointments to the new Provincial Services by utilizing the Public Service Commission or permanent boards of selection when appointment is made otherwise than by a competitive examination, and to secure the observance of proper procedure and rights of appeal in disciplinary cases.

11. The officers in the provincial services, who fill the middle grades of the administration, are recruited within the provinces by the provincial governments, their emoluments have to be voted each year by the provincial legislatures, and they have no right to retire prematurely on proportionate pension. The tenure of the subordinate civil servants is, of course, even more insecure.

All-India Services still controlled by the Secretary of State. Nationalist opinion holds that there is no justification for waiting until 1939 to attain the ratios laid down by the Lee Commission for the reserved services, which would leave the police service, in particular, still manned by a preponderance of British officers. With the exception of a negligible minority of highly technical positions, it is claimed that Indians with the requisite ability and experience to man these services are already available, and that their more intimate understanding of Indian society will more than counterbalance whatever initial shortcomings may exist. British India, moreover, has a comparatively large *intelligentsia* which is chronically unemployed. Under these circumstances, it is argued that the continued employment of large numbers of British officials represents a "vested interest" enforced by the political control exerted by Great Britain over the Indian administration. Official opinion, on the other hand, contends that the Lee Commission's ratios have provided for a substantial progress in Indianization over a comparatively short period, and that more rapid advance might result in an unsettlement that would have untoward effects upon the efficiency of the services. It is claimed, furthermore, that this argument has special weight with respect to the civil and police services—the so-called security services—which form the backbone of the administration. Thus, it is held that there is great need for thoroughly testing each advance in this sphere, especially in view of the pressure to which Indian officials are subjected by the prevailing communal tension, a difficulty which would be much enhanced under a fully responsible provincial government.

#### LOCAL ADMINISTRATION

In the evolution of the administrative system of British India, the district has become the geographical unit and the district officer the official unit of government.<sup>15</sup> Practically the whole of British India is divided into districts, averaging 4,430 square miles in extent and often containing as many as two or three million inhabitants. The size of

these units has necessitated further subdivisions, headed by Indian officials, reaching down to the villages. Centralized control of the local administration, however, is vested in the district officer, who until quite recently has invariably been a British official. He is a member of the Indian civil service and acts as the direct representative of the provincial government for all general purposes in the district. By means of periodic tours, he is expected to keep in close personal touch with the needs and problems of the local population. Practically, however, especially in recent years, he has come to depend more and more upon a network of subordinate Indian officials in the local subdivisions of the district both as sources of information and as means to effect his purposes.

The wide range of the district officer's authority is an inheritance from the early days of the British administration when he controlled all the government activities in the district. Many of his former duties have since been taken over by officials attached to new branches of the All-India Services. Nevertheless, as the general supervisory officer in the district, he must still keep in close touch with these specialized departments. His own primary functions are indicated by the two titles he generally bears: magistrate and collector. As chief magistrate of the district, he is responsible for supervising the magisterial work of the subordinate magistrates, and for maintaining peace and good order throughout his district, for which purpose he exercises also a general control over the police.<sup>16</sup> The district superintendent of police is his assistant for police purposes; in effect, the two officers work together in maintaining order. As collector, he is the chief revenue authority, responsible for the collection of the land revenue and other less important taxes. Through the revenue-collecting organization, he is enabled to perform a multitude of other duties, dealing with the registration, alteration and partition of holdings, the settlement of disputes, the management of indebted estates, loans to agriculturists, and famine relief. The district officer also wields large powers of patronage, since he is responsible for making a vast number of minor appoint-

15. *Indian Statutory Commission*, cited, Vol. I, p. 281-291, Vol. V, p. 812-814; *Report on Indian Constitutional Reforms* (Montagu-Chelmsford Report; London, H. M. Stationery Office, 1918), Cmd. 9109, p. 102-103.

16. Cf. p. 282.



ments, for granting seats at ceremonial functions, and for suggesting the recipients of Indian titles and honors. Until recently he has, in addition, usually acted as the chairman of municipal and local self-governing boards.

Official opinion points out that the centralization of authority in this system of local administration was an inevitable outcome of the necessity for establishing law and order in the early days of British administration. In a country of the size and population of British India, moreover, it is claimed that the district officer provides an essential elasticity in the dealings of the government with the people. To the members of the provincial governments, he is the indispensable source of reliable information concerning local conditions, upon which their decisions must be based. The concentration of administrative and judicial authority in the hands of one person is defended on grounds of expediency and efficiency. In times of communal stress, especially, the very scope of his authority enables the district officer to call his influence into play through many channels in order to stem the rising tide of impending strife.

Nationalist opinion, on the other hand, contends that the wide powers retained by the district officer are a relic of the former bureaucratic system, and must be radically curtailed. It especially condemns the coupling of executive and judicial authority in the hands of one person, and advocates the separation of these functions. It further argues that the district officer, although an essential cog in the machinery of the older régime, should become less and less necessary with the growth of democratic institutions. The administrative powers now wielded by the district officer, it is therefore urged, should be successively turned over to the local self-governing bodies, until he becomes an adviser to the local bodies and a source of information to the provincial governments, thus approximating the position elsewhere held by a civil servant.

#### LOCAL SELF-GOVERNMENT

The development of local self-governing institutions on an elective basis, especially in

municipal areas, began early in the era of British administration.<sup>18</sup> The elective feature of these bodies is a distinct British contribution to the Indian political system. Until recently, however, their progress has been very slow, a result which official opinion attributes largely to the political apathy of the Indian masses, accustomed to autocratic rule, and unskilled in the methods of elective democratic control. It is argued, on the other hand, that this situation results from the all-embracing control exercised by the administrative officials, particularly the district officer, and from the alien character of the type of institution introduced. Indians claim that the old village councils (*panchayats*), even though constituted on an hereditary instead of an elective basis, were better suited to local conditions, and that this fact was appreciated by a few of the early British officials, who vainly attempted to avert their decline.<sup>19</sup>

During the four decades preceding the Reforms an extensive network of municipal, district, subdistrict, and rural self-governing boards was set up. The proportion of their elected members increased, and the scope of their activity widened. The local bodies, however, were ill-equipped with funds, and interest in local affairs and capacity to handle them were slow in developing. As a result, the educative principle was subordinated to the desire for immediate results.<sup>20</sup> In most cases, the district officer continued to be chairman, in chief executive control of the local boards. Desirous of efficiency, and already overworked, he was reluctant to consume much time in getting the boards to do things badly which he felt he could himself do well. These factors together combined "to prevent real and substantial progress being made in political and popular education in the art of self-government."<sup>21</sup> In effect, therefore, outside of a few municipalities, there was nothing that would be recognized as local self-government of the Anglo-Saxon type before the era of the Reforms.<sup>22</sup>

The Montagu-Chelmsford Report laid down the definite formula that "there should

18. *Indian Statutory Commission*, cited, Vol. I, p. 298-315; Vol. V, p. 1053-1143.

19. Lajpat Rai, *England's Debt to India* (New York, B. W. Huebsch, 1917), p. 225-230.

20. *Report on Indian Constitutional Reforms*, cited, p. 11.

21. *Indian Statutory Commission*, cited, Vol. I, p. 301.

22. *Ibid.*, p. 302.

be, as far as possible, complete popular control in local bodies and the largest possible independence for them of outside control."<sup>23</sup> These views were enacted into law by the Government of India in 1918, with special emphasis on the advisability of reviving the *panchayats*, the traditional self-governing councils of elders in the villages. Local self-government under the Reforms became a provincial transferred subject, so that from 1921 the practical application of these policies fell to responsible Indian Ministers. Substantial advantage has been taken of this opportunity by the Ministers, especially in clothing the various local bodies with greatly enhanced powers, freeing them from official control, and making them responsible to materially enlarged electorates, including, in some provinces, both women and the depressed classes.<sup>24</sup> The effects of these changes are shown by the rapid advance from 1918-19 to 1925-26 in the percentage of elected members and chairmen of the municipalities and rural boards.<sup>25</sup> Great interest was taken by the people both in the elections to the local bodies and in the work performed by them. In Madras in 1925-26 the percentage of voters who went to the polls was 70 in municipal and 52 in rural areas, in Bihar and Orissa in 1927 the percentage was 65 in municipal and 61 in rural areas, and similar conditions in this respect prevailed in the other provinces. Taxation increased very considerably from 1918-19 to 1925-26 in municipal areas, although less so in rural areas. Expenditure upon education, medical facilities, and public health greatly increased. In many cases, on the other hand, the func-

tioning of the local boards has shown a considerable loss of efficiency under popular control. This result, however, is attributable chiefly to lack of experience and of adequate technical staff, such as the district officer possessed, as well as to inadequate supervision by the provincial governments.

### THE JUDICIAL SYSTEM

There are three stages in the judicial system of British India: local, district, and provincial.<sup>26</sup> The important courts are located at the district seat—the Sessions Court—and at the provincial capital—the High Court. The lowest judicial authority combines civil and criminal jurisdiction over a village or group of villages. It is exercised either by a village headman, who is usually a government official on small pay holding office by hereditary right, or else by a village *panchayat*. The local authority, however, can deal only with minor cases in which the punishment may be a petty fine or temporary confinement.

In the district, at the intermediate stage, civil and criminal jurisdiction are separate. Criminal law is administered by a hierarchy of magistrates, at the head of which stands the district magistrate (i.e., the district officer),<sup>27</sup> who exercises general administrative supervision over the subordinate magistrates, and himself tries some cases. Civil law is administered by a number of subordinate magistrates, headed by the Sessions Judge, who exercises the highest original jurisdiction in the district, both criminal and civil, and takes equal rank with the district officer. At the Sessions Court, with the aid of assessors or juries, the Sessions Judge tries the most serious criminal cases which have been committed for trial by the magistrates, and hears appeals from the decisions of the civil judges.

The High Court is the supreme judicial tribunal of the province. It exercises supervisory powers over all the judicial authorities in the province, and is in most cases the final court of appeal. Since no Supreme Court for India has been set up, such cases as may be appealed from the High Courts are adjudicated by the Privy Council in England. The majority of the High Courts

23. Report on Indian Constitutional Reforms, cited, p. 155.

24. Report of the Indian Central Committee, 1928-29 (Chairman, Sir Sankaran Nair; London, H. M. Stationery Office, 1929), Cmd. 3451, p. 23-25.

25. The figures are as follows (*Ibid.*, p. 24):

Province	Municipalities			
	Percentage of elected members		Percentage of elected chairmen	
	1918-19	1925-26	1918-19	1925-26
Madras .....	55.8	76.7	69.44	96.25
Bombay .....	48.9	78.3	40.52	92.3
Bengal .....	62.9	64.2	85.21	93.0
United Provinces ..	85.2	86.9	74.69	85.88
Punjab .....	51.0	72.3	19.44	86.53
Bihar and Orissa ..	59.9	77.9	40.0	91.41
Central Provinces ..	62.4	77.4	84.74	96.92
Assam .....	53.1	78.1	60.87	60.0
	Rural Boards			
	Percentage of elected members		Percentage of elected chairmen	
	1918-19	1925-26	1918-19	1925-26
Madras .....	22.2	85.4	16.49	94.17
Bombay .....	49.7	75.4	None	85.55
Bengal .....	47.4	61.3	60.82	96.29
United Provinces ..	74.6	93.4	66.66	100.
Punjab .....	36.9	67.0	None	3.44
Bihar and Orissa ..	86.1	73.4	56.56	91.12
Central Provinces ..	73.8	75.3	69.6	88.66
Assam .....	63.0	69.7	5.26	68.42

26. Indian Statutory Commission, cited, Vol. I, p. 292-297.

27. Cf. p. 280.

have been established by Royal Letters Patent made under statutory authority, and the judges are therefore appointed by the King and hold office during his pleasure, as in Great Britain. One-third of the High Court judges must be British barristers of not less than five years' standing, and one-third must be members of the Indian civil service.

The Indianization of the British-Indian judiciary is far advanced. The subordinate ranks are almost wholly Indian in every province. Even in the upper grades, except for the district magistrates, who are still predominantly British, there is virtual equality in the number of British and Indian judges.

#### Results of the System

The judicial system established by the British in India has had three beneficent results—it has codified the law,<sup>28</sup> introduced a legal method with a tolerable degree of certainty in its working, purified the Bench, and made bribery a thing of the past, at least in the higher grades.<sup>29</sup> On the other hand, the introduction of a largely alien system of law into India has brought about a complete transformation of social relationships, with untoward effects on the operation of both the civil and criminal branches of the law.<sup>30</sup> In the pre-British era, since the cultivator had no realizable property, the money-lender regarded him as a going concern with the harvest as security, and was unwilling to push him to extremities. With the coming of Western law, the relationship of the cultivator both to his land and to the money-lender was revolutionized. Lawyers arose to interpret the new legal relationship, and litigation developed enormously until in Bengal, for example, judicial stamps are now a source of revenue second only to the land taxes.<sup>31</sup> The operation of strict legal processes brought whole communities in the

rural areas to the verge of ruin and the country to the edge of serious disorder, as in the Deccan in 1879, and the Punjab in 1900.<sup>32</sup> Somewhat similar results have ensued on the criminal side in the lower courts, where wealthy evil-doers have been enabled to manipulate the processes of the law to their own advantage.<sup>33</sup>

These difficulties have been stressed by many of the commissions which have investigated Indian problems. The Montagu-Chelmsford Report, in discussing the interests of the cultivator, declared:

"A simple, cheap, and certain system of law is one of his greatest needs. He greatly requires to be protected against the intricacies of courts and the subtleties of laws and enabled to defeat the advantage enjoyed by long-pursed opponents."<sup>34</sup>

Efforts made by the Government of India to meet the situation have thus far been only partially successful. A long series of legislative enactments, such as the Punjab Land Alienation Act, has proved ineffective in the face of reinterpretation by the lawyers. Much greater success has attended the activities of the peasant cooperatives, established under government auspices, particularly in providing credit facilities.<sup>35</sup> An even more basic reform would become possible if the *panchayats* should be generally revived, as has been attempted in a number of provinces. In this case, the whole range of petty criminal and civil disputes, including those between the cultivator and the money-lender, could well be transferred from the jurisdiction of the lower courts to that of the village tribunals.<sup>36</sup>

#### CIVIL ISSUES AT THE CONFERENCE

The constitution outlined at the first round-table conference included several notable advances toward a responsible civil ad-

28. The British administration has formulated a penal code, and codes of criminal and civil procedure, but not a civil code. The penal code, while respecting Indian thought in general, prohibited such practices as widow-burning and exposure of infants. Civil law has been developed by legislative enactment. It includes a mass of civil, commercial, industrial, agricultural, and credit regulations, but has generally left family, caste, and religious matters to Indian custom. Nevertheless, both the criminal and civil systems have been largely based on British law. Cf. Joseph Chailley, *L'Inde Britannique* (Paris, Librairie Armand Colin, 1910), p. 296-315.

29. J. Ramsay MacDonald, *The Government of India* (London, The Swarthmore Press, 1919), p. 207.

30. For detailed treatment, cf. *Ibid.*, p. 192-212.

31. *Indian Statutory Commission*, cited, Vol. I, p. 292.

32. MacDonald, *The Government of India*, cited, p. 209. Another observer has stated that "the elaborate and costly machinery of British courts and British legal processes and the immense advantages which they give to the literate minority against the illiterate cultivators and craftsmen have completely elbowed out of Indian courts all real justice founded on equity and common sense." Cf. G. T. Garratt, *An Indian Commentary* (London, Jonathan Cape, 1928), p. 230.

33. *Ibid.*, p. 211.

34. *Report on Indian Constitutional Reforms*, cited, p. 114.

35. In 1929 there were 85,383 cooperative societies, with 3,598,943 members and with a capital aggregating £61,995,900. (Figures supplied by the British Library of Information.)

36. In the Murree Hills district of the Punjab during 1930, for example, local *panchayats* settled 2,117 cases satisfactorily with no appeals sought. *Christian Science Monitor*, August 31, 1931.



ministration in India. The federal structure subcommittee accepted the principle of Indian responsibility for the central organs of the new federated government, with certain reservations to the Governor-General in matters of finance, defense, and foreign affairs during a transitional period.<sup>37</sup> The subcommittee on provincial constitutions was agreed that the existing system of dyarchy should be abolished and that all provincial subjects, including the portfolio of law and order, should be administered in responsibility to the provincial legislatures.<sup>38</sup> The conference as a whole accepted in principle the necessity for the establishment of a Federal (or Supreme) Court for India, leaving the exact jurisdiction and constitu-

tion of the court open for further determination.<sup>39</sup> The subcommittee on the services recommended that the forest service and the irrigation branch of the engineers should be provincialized. It held that recruitment for the civil and police services, however, should continue on an All-India basis, but should be placed under the authority of the Government of India instead of the Secretary of State. The majority of the subcommittee also agreed that some recruitment of Europeans should continue in the case of these two services, but disagreed as to whether the ratios laid down by the Lee Commission should remain in force or whether they should be left for decision by the future Government of India.<sup>40</sup>

### FISCAL ADMINISTRATION

The development of the Indian fiscal system, in its broad outlines, has been similar to that of the administrative system.<sup>41</sup> The ultimate responsibility of the Indian administration to Parliament has necessitated a descending scale of authority in fiscal affairs through the India Office and the Government of India to the provincial governments. The tendency has been toward a slackening of the rigid fiscal control at first exercised by the India Office and the Government of India in their respective spheres. The loosening of control from above has been accompanied by a growth from below in the size and authority of the elective element in the Indian legislatures, central and provincial. Through the action of these bodies, especially since the Reforms, the fiscal system of British India has become responsive (but not responsible) to an increasing measure of popular control.

#### THE PRE-REFORM FISCAL SYSTEM

From 1858 to 1920, three strands of relationship must be distinguished in the Indian fiscal system: between Parliament and the India Office, between the India Office and the Government of India, and between the latter and the provincial governments.<sup>42</sup> Until nearly the close of this period, the Indian

legislative councils were of such rudimentary character as to afford but slight opportunity for the exertion of any substantial degree of popular influence upon fiscal affairs.

#### Control by Parliament

With the assumption by Parliament of direct responsibility for the governance of India in 1858, Indian revenues were formally vested in the Crown, and by statutory enactment were placed under control of the Secretary of State in Council. The fiscal authority of the Secretary of State was limited by the provision requiring a majority vote in Council for the sanction of expenditure. Parliament also retained two special powers. The consent of both Houses was required to charge expenditure for military operations outside India upon Indian revenues; and all sterling loans raised by the Secretary of State required the authority of Parliamentary statute. With these two exceptions, the transfer of Parliament's fiscal authority to the Secretary of State was complete. The Indian revenues, apart from loans, are not raised by direct authority of Parliament; nor are the charges, aside from military expenditure beyond the frontiers, incurred with its direct approval. A detailed account of Indian receipts and charges is annually laid before Parliament, however, as well as a report on the moral and material progress

37. *Indian Round Table Conference* (London, H. M. Stationery Office, 1931), Cmd. 3778, p. 208-235. The fiscal safeguards are discussed below (cf. p. 298); the army safeguards will be treated in the next report.

38. *Ibid.*, p. 301.

39. *Ibid.*, p. 417-418.

40. *Ibid.*, p. 404-408.

41. Cf. p. 278.

42. *Report on Indian Constitutional Reforms*, cited, p. 27-35, 89-95; *Indian Statutory Commission*, cited, Vol. I, p. 343-345, 367-368; Vol. V, p. 825-833.



of India. On this occasion, a general debate on Indian affairs is in order, and the Secretary or under-Secretary of State informs the House about any important matters of administration. All sums expended in England on behalf of India are also examined by an auditor who lays his report before both Houses.

#### **Control by the Secretary of State**

The fiscal control of the Secretary of State in Council over the Government of India remained absolute until 1920, although considerations of administrative convenience had early necessitated a wide delegation of powers to the authorities in India. In practice, the Secretary of State issued a "resolution," amended from time to time, indicating the precise limits of expenditure which the Governor-General in Council could incur without previous reference to him. All proposals for central or provincial taxation required the Secretary of State's previous sanction, currency and exchange operations were under his control, and no loan could be raised by the Government of India without his consent. The Government of India's budget, which down to 1920 included provincial as well as central transactions, also required his approval before being discussed by the Legislative Assembly.

#### **Control by the Government of India**

During the early years after 1858, the fiscal authority exerted by the Government of India over provincial revenue, expenditure, and borrowing was equally complete. The provincial governments were unable to levy taxes without the previous sanction of the Governor-General in Council, provincial expenditure required the formal orders of the Government of India, and entry to the public loan market was entirely reserved to the central government. Gradually, however, the rigidity of the central government's control over provincial revenue and expenditure was partially relaxed. In 1871 the administration of certain local departments was transferred to the provincial governments, which were given a fixed grant for this purpose, in addition to the departmental receipts, and were also for the first time authorized

to allot the assigned revenues at their discretion, subject to codes of instructions. In 1877 additional departments were delegated to provincial administration, and certain important heads of revenue were provincialized. From 1882 began the development of the system of provincial financial settlements, on the basis of the so-called "divided heads" of revenue, which persisted until 1920. Under this system, the central government by 1912 retained the entire profits of the commercial departments, such as railways and posts, and all revenues whose *locale* was no guide to their true incidence, such as customs, salt, and opium. The remaining sources of revenue, such as the land tax, alcoholic excises, and stamps, were either completely provincialized, or else divided between the central and provincial governments on the basis of the latter's ascertained needs at the time of settlement. The financial settlements under this arrangement became quasi-permanent in 1904, and were made permanent after 1912. Special cash grants, both recurring and non-recurring, however, continued to be made by the Government of India to the provinces down to 1920. The settlements were an undoubted advance upon the earlier centralized system, and paved the way for the allotment of entirely separate revenue resources to the provinces under the Reforms.

#### **FISCAL DEVOLUTION UNDER THE REFORMS**

The Montagu-Chelmsford Reforms, while preserving the great bulk of the Secretary of State's financial powers, hastened the tendency toward provincial fiscal autonomy, and provided considerably wider opportunities for the exercise of popular control over both central and provincial finance.<sup>43</sup>

#### **Changes with Respect to Parliament**

The fiscal relationship of Parliament to the Secretary of State in Council, with but one exception, was virtually unchanged by the Reforms. The exception concerned the salaries of the Secretary and under-Secretary of State for India, the defrayal of which was transferred from Indian to Imperial rev-

43. *Report on Indian Constitutional Reforms*, cited, p. 164-173; *Indian Statutory Commission*, cited, Vol. I, p. 368-377, p. 346-351; Vol. V, p. 833-842, 1652-1665.

enues, and made votable annually by Parliament. In conformity with this change, the charges of the India Office were also assumed by the British treasury, except for those sums attributable to agency work performed by the India Office on behalf of the Government of India, and therefore legitimately chargeable to Indian revenues.

#### **Devolution by the Secretary of State**

The primary responsibility for the finances of India still rests under the Reforms with the Secretary of State. The changes effected in the fiscal relationship of the Secretary of State to the Government of India and the provinces were so qualified as to retain sufficient authority in his hands to enable him to acquit himself of his responsibility to Parliament. Although broad powers of expenditure have been delegated to the Government of India, outlay upon certain items still requires previous sanction by the Secretary of State in Council.<sup>44</sup> His previous assent to the central budget is still required, particularly with regard to measures affecting taxation. This provision is, however, limited by the Fiscal Convention, formally accepted by the Secretary of State in 1921, which precludes his interference with tariff changes upon which the Government of India and the Central Legislature are in agreement. He still controls the gold standard and paper currency reserves, currency and exchange policy, and all borrowings in England and India. With regard to the provinces, the Secretary of State has definitely divested himself of control over expenditure by the transferred departments. Even in this case, however, his control is indirectly asserted through the Governor, whose approval is required for all provincial appropriations, including those of the transferred departments.<sup>45</sup> With regard to the reserved departments, although considerable powers of expenditure are delegated to them by the Secretary of State in the annual Provincial Audit Resolution, important items are again enumerated for his previous sanction.<sup>46</sup>

44. The reserved items include expenditure upon new military projects exceeding a certain amount; and expenditure chargeable to capital or to revenue for new railway construction exceeding Rs. 1½ crores (\$5,625,000).

45. The funds administered by the transferred departments are, in any case, a small fraction of the total Indian revenues.

#### **Devolution by the Government of India**

The relations of the Government of India to the provinces in fiscal affairs have undergone a complete change through the Reforms. It is first necessary to consider the measure of control still maintained over provincial finance. The provincial budgets are no longer submitted to the Secretary of State or the Government of India for approval before being submitted to the provincial legislatures, but provincial solvency is ensured by the indirect method of control over provincial loans and balances, which are regulated by statutory rules enforced by these authorities. No loan may be raised by a provincial government outside India without the sanction of the Secretary of State, or within India except by approval of the Government of India.<sup>47</sup> Provincial borrowing is restricted, moreover, to capital expenditure on projects of lasting public utility, famine relief, and repayments of loans or advances. Although under these regulations some provinces have resorted to borrowing in the open market, the bulk of provincial borrowing has been from the Government of India which, through the medium of the Provincial Loans Fund established in 1925, regulates the terms and conditions, the rate of interest, and the period of amortization of all advances to the provinces. In addition, as statutory custodian of the provincial balances, which it pools with its own, the Government of India may, with the previous sanction of the Secretary of State in Council, prescribe the procedure to be followed in regard to the payment of money into and the withdrawal, transfer, and disbursement of money from the public account. It has, further, the power to require provincial governments so to regulate their programs of expenditure as not to reduce the balance to their credit below a stated figure, and to make their orders effective by the restriction of issues. Interest charges, moreover, have priority over all other charges on provincial revenue.

46. The reserved items include the pay and allowances of the All-India service officers, the expenditure of Governors, the revision of establishments involving an annual expenditure exceeding a certain limit, and capital expenditure on irrigation and other public works estimated to cost more than Rs. 50 lakhs (\$2,175,000).

47. In this connection, it must be borne in mind that prior to 1921 the provincial governments were unable to float loans on their own initiative under any conditions.

The authority exerted by the Government of India over provincial finance in its capacity as controlling custodian of provincial resources under the reformed system is therefore not inconsiderable. At the same time, however, the provincial governments have secured a wide measure of independence both as regards the objects of disbursement and the means of acquisition of provincial funds. The former aim was largely achieved by the abolition of the elaborate codes of instructions by which the Government of India had previously regulated provincial expenditure. The latter end was sought by carrying the pre-reform financial settlements to their logical conclusion, i.e., a complete statutory separation of central and provincial revenues.

The general scheme of the Montagu-Chelmsford Report provided that sufficient resources should be secured to the central government to meet its estimated expenditures, and that the remainder should be handed over to the provincial governments, which should henceforth administer all provincial departments. The procedure called for the abolition of the "divided heads" of revenue, and the definite allocation of each main revenue head to the centre or the provinces. Acting on this principle, the Report recommended that the central government be assigned the revenue from customs, salt, opium, general stamps, income tax, and from railways, posts, and telegraphs. The provinces were assigned the receipts from land revenue, irrigation, excise, forests, judicial stamps, registration fees, and certain other minor revenues. To meet an estimated deficit in the central budget, expected to result under this distribution of resources, the Report proposed, as a transitional measure, a system of annual contributions from each province to the central government, in the form of a definite proportion of the estimated provincial surpluses. In order to enlarge the taxing power of the provincial governments, it was also proposed that certain subjects of taxation should be scheduled as reserved for the provinces. The residuary powers of taxation, however, were to be retained by the central government.

The above proposals were substantially carried out by the Government of India Act,

1919. A few changes suggested by a Financial Relations Committee headed by Lord Meston, which reported in March 1920, were embodied in the draft rules under the Act, as amended by a Joint Select Committee of Parliament. By these changes, the initial provincial contributions to the central government were assessed not on the estimated provincial surpluses but on the estimated increase in provincial revenues, and were if possible to be gradually reduced until they became totally extinct.<sup>48</sup> Two additional sources of revenue were transferred to provincial control and administration: the general stamp duties, and that share in the growth of the income tax revenues attributable to an increase in the amount of income assessed. Among the scheduled taxes reserved to the provincial governments were placed succession duties, and taxes on betting, advertisements, amusements, and specified luxuries.

#### Increased Popular Control

Consideration has so far been directed toward the method and extent of financial devolution within the administrative structure of British India. It is now necessary to turn to the manner in which popular opinion, as expressed through the Indian central and provincial legislatures, has been enabled to influence fiscal policy under the reformed system of government.

The financial powers of the Indian legislatures over the budget are exerted by means of discussion, the voting of expenditure and taxes, and the activities of standing committees of finance and audit. The preparation of the central budget is in the hands of the Governor-General in Council, assisted, however, by the Finance Committee of the Legislative Assembly, a body composed chiefly of elected members but presided over by the Finance Member.<sup>49</sup> The Finance Committee scrutinizes proposals for new votable expenditure, suggests retrenchments, and in general is consulted about the estimates prior to their being laid before the Assembly as a

48. The initial contributions by the various provinces under the Meston Settlement were fixed as follows (in lakhs of rupees; 1 lakh=£7,500): Madras, 348; United Provinces, 240; Punjab, 175; Bengal, 63; Bombay, 56; Central Provinces, 22; Assam, 15; Bihar and Orissa, none.

49. Member, i.e., term used to denote a non-responsible cabinet official, both at the centre and in the provinces; actually, a Government appointee to the central or provincial Executive Councils, usually British.



whole. While purely advisory in character, its views have rarely been ignored by the Governor-General in Council. Early in March the budget is presented simultaneously to both branches of the Legislature, accompanied by a detailed speech from the Finance Member.<sup>50</sup> His statement is followed by a general debate on the whole field of administration, which furnishes the Assembly with its sole opportunity of criticizing the revenue estimates and the loan policy of the Government of India. The demands for supply are next presented to the Assembly in the form of a series of Government motions, with provision for a limited period of debate. Many of the lesser items are "votable," but the debt charges, army expenditure, and the bulk of the administrative charges, comprising practically 80 per cent of the central expenditures, are "non-votable." The latter are invariably submitted to the Assembly for discussion, however, and such heads are customarily attacked by means of a cut in ancillary votable items.<sup>51</sup> The demands as voted by the Assembly are then submitted to the Governor-General in Council, who by a special provision of law, which has been invoked on many occasions, is empowered to restore any amount cut out by the Assembly if he considers such a course essential to the discharge of his responsibilities. Furthermore, the law confers on the Governor-General the power in case of emergency to authorize, without reference to any other body, such expenditures as may in his opinion be necessary for the safety or tranquillity of British India.

The central taxes of India, except for the tariff, are voted annually by the Legislature. These measures are embodied in an annual Finance Bill, which is formally introduced at the time of the Finance Member's budget speech, though it is not discussed or voted upon until after the estimates have been passed or restored. The Governor-General is also empowered to certify rejected taxation, a right which was utilized in certifying the Finance Bills of 1923 and 1924.

50. While the Council of State engages in a general discussion of the budget, it has no right to consider a motion or to vote on the proposals for expenditure. In regard to the voting of taxes in the annual Finance Bill, however, the upper house has equal powers with the Assembly.

51. Army expenditure, for example, may be attacked by moving a reduction in the expenditure proposed for the army secretariat, a votable item.

A system of appropriation audit has also been introduced, under which the Auditor-General compiles an annual report that is scrutinized by the Public Accounts Committee of the Assembly, which includes eight elected and three nominated members. The chairman is the Finance Member, not as in England, a member of the Opposition. Its chief function is to satisfy itself that funds voted by the Legislature have been spent within the scope of the demand. Although it can point out irregularities or improprieties, and record its findings and recommendations, it cannot issue any orders or disallow any items of expenditure. Its report is presented to the Assembly, but is seldom discussed. The actual deliberations of the Committee, however, receive a great deal of publicity, and its scrutiny is zealous and detailed.

The general budget procedure in the provincial legislatures is on the same lines as in the central legislature. The proportion of votable expenditure is larger in the provinces, however, and the Governor's powers are somewhat more limited than those of the Governor-General. The legislature has the final voice in accepting or reducing amounts proposed for expenditure on transferred departments, although in reserved subjects the Governor's power of restoration is retained. In cases of emergency, however, the Governor is at liberty to authorize expenditure on both transferred and reserved subjects, whenever he deems it necessary for the safety or tranquillity of the province, or for the carrying on of any department. The provincial finance committees, which have been constituted in seven of the nine major provinces, have in several cases exerted considerably greater influence over budgetary apportionment than the central financial committee. The constitution, functions, and powers of the provincial auditing committees are similar to those of the central auditing committee. There is no annual finance bill in the provinces. The land tax remains constant for a long period of years, and, in any case, is fixed by executive authority rather than by legislative vote. Other provincial taxation depends upon permanent statutes.

### FISCAL DEVELOPMENTS UNDER THE REFORMS

The introduction of the reformed system of government in British India in 1921-1922 coincided with a period of exceptional financial stringency, which greatly hampered its working.<sup>52</sup> The estimated revenues under the Meston Settlement embodied in the Government of India Act had been expected to yield substantial provincial surpluses to cover their annual contributions to the central government and to provide for the development of the "nation-building" departments, such as agriculture, education, and public health, transferred to responsible Indian Ministers. The period of acute financial stringency which the Indian governments were passing through during the first years of the Reforms transformed the expected surpluses into substantial deficits. Both the provincial and central governments resorted to drastic economies and additional taxation in order to balance their budgets. So far from the hoped-for expansion of the nation-building services, expenditure on the provincial transferred departments in 1923-1924 was actually less than in 1921-1922. During these years the Meston Settlement, especially as regards the provincial contributions to the central government, became the subject of bitter criticism by the provinces, and exacerbated the political situation. The Muddiman Committee, appointed in 1924, recommended an early revision of the Meston Settlement, and expressed the hope that the provincial contributions might be reduced at an early date.

The financial embarrassments of the central government at this time, however, were

not less serious than those of the provinces. For three successive years prior to the Reforms the central budget had revealed a large deficit. Army expenditure was increasing, until in 1921-1922, the first year of the reformed system, it amounted to nearly \$284,000,000 (78 crores of rupees). This amount was reduced to approximately \$236,500,000 (Rs. 65 crores) in 1922-1923, and the tariff and income tax rates were increased, but still the budget showed a deficit. Under insistent pressure from the Legislative Assembly, the Indian Retrenchment Committee headed by Lord Inchcape was appointed in 1922 to scrutinize the expenditure of all the central departments. The Inchcape Committee recommended a reduction of over \$70,000,000 (Rs. 19 crores) in central expenditure. In 1923-1924, the military charges were reduced to approximately \$205,000,000 (Rs. 56 crores), and by the doubling of the salt duty the budget was balanced. Thereafter, the general financial position rapidly improved. The salt duty was restored to its original rate in 1924-1925. The excise duty on Indian mill-owned cotton goods, which had been the subject of vehement attacks in India for nearly 30 years, was abolished in 1926. The provincial contributions were gradually reduced, and in 1927-1928 they were finally extinguished.

### BUDGETS

Table II presents a balance sheet of India's central and provincial finances under normal conditions, indicating the relative importance of the various items of revenue and expenditure.<sup>53</sup>

**TABLE II**  
**Indian Central and Provincial Budget Estimates for 1929-30**

(In crores of rupees. One crore=£750,000.)

<i>Central Revenue</i>		<i>Central Expenditure</i>	
Customs .....	51.22	Defense (net) .....	55.10
Income tax .....	16.60	Debt charges (net) .....	12.19
Salt .....	6.35	Civil Administration (net) .....	11.56
Other taxes .....	1.19	Loss on post office, irrigation, and forests .....	.39
		Cost of collection .....	3.32
Total taxes .....	75.36	Civil works (net) .....	2.41
Railways (net) .....	6.25	Pensions .....	2.78
Opium (net) .....	2.35	Other expenditure (net) .....	.47
Currency and Mint (net) .....	2.35		
Tributes from Indian States .....	.74		
Other receipts (net) .....	1.17		
		<b>TOTAL .....</b>	<b>88.22</b>
<b>TOTAL .....</b>	<b>88.22</b>		

52. *Indian Statutory Commission*, cited, Vol. I, p. 352-355.

53. *Ibid.*, Vol. II, p. 215. The succeeding budgets have been upset by the effects of the world depression and the activities of the civil disobedience movement.

TABLE II (Continued)

<i>Provincial Revenue</i>		<i>Provincial Expenditure</i>	
Land Revenue .....	35.48	Land Revenue and General Administration ....	15.76
Excise .....	19.44	Police .....	12.28
Stamps .....	14.35	Jails and Justice .....	8.31
Registration .....	1.47	Debt .....	3.24
Scheduled taxes .....	.39	Pensions .....	4.05
		Education .....	12.57
Total taxes .....	71.13	Medical and Public Health .....	6.38
Forests (net) .....	2.07	Agriculture and Industries .....	3.53
Irrigation (net) .....	2.77	Civil Works .....	11.84
Other sources of revenue .....	12.28	Other expenditure .....	9.00
<b>TOTAL</b> .....	<b>88.25</b>	<b>TOTAL</b> .....	<b>86.96</b>

## REVENUE

Thus, when the total central and provincial revenues of the British-Indian budgets are combined, out of Rs. 146 crores of taxation, customs dues produce 51 crores, land revenue 35½ crores, alcoholic excise 19½ crores, and salt 6½ crores. The railways furnish 6 crores, and other minor receipts accrue from opium, currency and mint, irrigation, forests, and tributes from the Indian States.

### Tariffs

Customs duties have come to hold their present predominance in the revenues of British India largely as a result of the financial crisis that followed the World War. During the nineteenth century the Government of India followed a low revenue tariff policy verging on free trade. At present, the general tariff rate ranges between 15 and 20 per cent. A long schedule of articles is taxed at a lower rate, however, while certain classes of luxury goods pay 30 per cent. Indian manufacturers claim that the low tariff policy long favored by the Government of India has hampered the growth of large-scale industry in India, and are anxious to embark on a protective policy in order to stimulate industrial development. British opinion argues that the present tariff is already high, especially in view of the additional burden increased rates would place upon the agricultural population, which comprises the great bulk of Indian consumers.

### Land Revenue

The land revenue, in addition to its importance in the administrative sphere, has until recently formed the backbone of the Indian fiscal system. Two broad types of

land "settlement"—permanent and temporary—are in effect in British India.<sup>54</sup> In the permanently assessed areas, including Bengal, Bihar, a fourth part of Madras, and one district in the United Provinces, the revenue paid by the landowners<sup>55</sup> was fixed in perpetuity by the East India Company on a cash basis in 1793. The original rate, fixed at 90 per cent of the assessed income, worked great hardship on the landowners, many of whom were forced to sell their estates. As time passed, however, and the value of the land increased, the original assessments bulked proportionately less and less, until today many immensely valuable sites in the permanently assessed areas pay an infinitesimal land revenue. Within recent years increasing pressure has developed to bring these areas under adequate taxation, but without actual effect. Especially if a responsible government were set up, it is argued that it would be justified in repudiating a bargain made at the end of the eighteenth century between a few Indian revenue collectors (not the actual landowners) and the East India Company. Elsewhere in British India, outside the permanently assessed areas, temporary assessments are in vogue which permit of periodic revision, enabling the Government to recapture a percentage of the increasing income derived from the land. In these temporarily assessed areas, the Government deals either with landlords or else directly with the actual cultivators. By the middle of the nineteenth century the usual rate in these areas was 50

54. *Ibid.*, Vol. I, p. 337-342, 363-364; Anstey, *The Economic Development of India* (New York, Longmans, Green and Co., 1929), p. 97-103, 374-378.

55. The original landlords were not the owners of the land at all, but hereditary revenue collectors under the Mogul Emperors. The East India Company made the mistake of recognizing them as owners of the areas over which their right of collection extended, thus dispossessing the real owners.



per cent of the net income from the land. The statutory maximum in most provinces is now still 50 per cent, although the actual rate is usually much less. There is strong popular opposition to the land revenue in the temporarily assessed areas, which in many provinces is levied by executive action entirely. Attempts to bring the revision of land revenue assessments under legislative control have been successful only in the Punjab and the United Provinces. The burden of the land revenue in the temporarily assessed areas weighs equally on rich and poor alike, and its incidence has been charged as a major cause of the poverty of the Indian villager.<sup>56</sup> On the other hand, the land revenue is defended as the chief means by which the agricultural classes contribute towards the expenses of government. It is recognized, however, that a graduated tax on agricultural incomes would conform far better to sound canons of taxation and at the same time relieve the poorer cultivators.

#### Income Tax

The income tax is a graduated levy on all non-agricultural incomes exceeding \$750 (£150).<sup>57</sup> The rates vary from 2½ per cent on incomes of £150 to 10 per cent on incomes over £3,000. There is, in addition, a super-tax on incomes exceeding £3,750 which rises to a maximum of 38 per cent. The exemption level is generally considered too high, especially for Indian conditions, but is offset by the absence of allowances for dependents, which would be difficult to assess under the joint family system. Salaries, pensions, and interest on securities, all paid in England, are liable to income tax in England, and do not contribute anything to Indian revenues. This provision is not only detrimental to the revenue, but is an inducement to send Indian capital overseas, and the Simon Commission recommended its amendment.<sup>58</sup> The chief factor in the relatively low yield from the income tax, however, is the exemption of agricultural income owing to the opposition of the small but influential class of large landowners which would be chiefly affected. The Simon Commission argues the unjusti-

fiability of this exemption, and recommends its removal.<sup>59</sup> The Government of India has been criticized for failing to take this reform in hand. The opposition of the land-owning classes to such a measure, however, may prove even more difficult to overcome under a responsible government.

#### Liquor Excise

The administration of the liquor excise in British India tends towards a government monopoly.<sup>60</sup> The privileges of manufacture are separated from those of sale, and of licenses for the sale of one intoxicant from those for the sale of another. The duty is normally levied by executive rather than legislative authority; and is collected at distilleries or wholesale warehouses. The distiller is usually given a monopoly for a term of years, at rates determined by competition, to supply shops in fixed areas. The licenses for retail sale, giving the licensee sole monopoly over a defined area, are generally sold at public auction. This system is defended on the ground that it raises a maximum revenue from a minimum consumption. The excise rates have been steadily increased *pari passu* with the increased duties on imported liquors. The number of licensed shops has been substantially reduced, so that in 1920-1921 there were only 48,388 in the whole of British India, i.e., an average of only one shop for every 22 square miles. The Government of India has opposed a policy of prohibition on the grounds of loss of needed revenue, and expense and difficulty of enforcement, particularly in a country which grows the toddy-palm. Indian opinion, however, points out that the excise revenue has increased from some £2,000,000 fifty years ago to £14,751,000 in 1928-29, and argues that these figures indicate an increase in consumption as well as in excise duty.<sup>61</sup> Moreover, it is claimed that, under a responsible government, public opinion and social pressure would make prohibition practicable in India, where both the Hindus and Muslims are enjoined to temperance by their scriptures. This sentiment is not confined

59. *Ibid.*, p. 239-240.

56. Cf. *India*, F. P. A. Pamphlet, No. 70, January 1931, C. F. Andrew's speech, p. 15.

57. *Indian Statutory Commission*, cited, Vol. I, p. 359-360; Anstey, *The Economic Development of India*, cited, p. 381-382.

58. *Indian Statutory Commission*, cited, Vol. II, p. 239.

60. *Ibid.*, Vol. I, p. 364-365; Anstey, *The Economic Development of India*, cited, p. 380-381; *India in 1925-26* (Calcutta, Government of India Central Publication Branch, 1926), p. 50-52.

61. Frederick Grubb, "India and Prohibition," *Indian Affairs* (London), Vol. I, No. 3, September 1930, p. 172.

to the All-India Congress adherents. In 1925 the Legislative Assembly itself passed a resolution by 69 votes to 39 calling for the adoption of a prohibition policy.<sup>62</sup> The minority opposed to the resolution was composed of all the British members—25 in number—and 14 Indian members officially connected with the Government. On the other hand, it is argued that little has been accomplished by the provincial Ministers charged with the administration of excise under the Reforms. In the provinces, however, with no other adequate sources of revenue, the Ministers found themselves forced to finance education and other essential services out of the excise dues, which supply roughly one-fourth of all provincial revenue. It is claimed that economies in the reserved departments will enable the inauguration of a prohibition policy under a responsible government, where, in addition, the pressure of Nationalist sentiment will be far stronger than in the reformed legislatures.

Several other revenue items are subjects of controversy. The large revenue derived from the stamp duties is deplored as an indication of the vast amount of litigation that has resulted from the introduction of Western law into India. The salt tax has been dealt a severe blow during the agitation of the past two years, and especially by the exceptions introduced into the Gandhi-Irwin agreement. The bulk of the opium revenue is derived from exports, which the Government of India has undertaken to stop before the end of 1935. A small sum is derived from the opium excise. Since 1920, with the vigorous support of Indian public opinion, opium production within British India has been greatly reduced.

#### EXPENDITURE

Out of a total net expenditure of Rs. 175 crores (some \$650,000,000), listed in the central and provincial budgets for 1929-1930,<sup>63</sup> British India is allotting 125 crores,

or five-sevenths of the whole, to outlay upon the primary functions of government. Of this amount, defense absorbs 55 crores, civil administration 27 crores, police, jails and justice nearly 21 crores, debt 15 crores, and pensions 7 crores. Less than two-sevenths of the total, some 37 crores, is spent upon the secondary functions of government, comprising 14 crores for civil works, 13 crores for education, 6½ crores for public health, and 3½ crores for agriculture and industries.

The foregoing figures are further analyzed by the Simon Commission's Financial Assessor, Mr. Walter T. Layton, in connection with the comparative annual incomes of Britain and British India.<sup>64</sup> He points out that while the annual per capita income of the British people is very nearly £100, the corresponding figure for the people of British India, on the most optimistic estimate, is £8. The proportion of this annual income which is taken in Britain by the tax gatherer and spent upon military and naval defense is about 2½ per cent, i.e., £2 10s. 0d. a head, while the expenditure of British India upon the army is about 2 per cent of its annual income, i.e., 3s. 4d. a head. But, whereas Britain spends £2 15s. 0d. a head upon education, the amount thus spent in British India is less than 9d. a head. He concludes that British India is therefore incurring expenditure on the primary functions of government as high in proportion to its wealth as Western nations, while its expenditure on social services, such as education, health and sanitation, is far behind Western standards, and indeed in many directions is almost non-existent. On the other hand, Mr. Layton points out that on the basis of these figures the ratio of total taxation to national income in British India is only 6 per cent while in Britain it is 20 per cent; and, even more significant, the same figure is 20 per cent for Japan, an oriental country with a population whose standard of living is comparatively low.

The three chief items of expenditure upon primary government services in British India, as shown in Table II, comprise military expenditure, civil expenditure, and expenditure for service of debt.

62. The resolution read as follows: "This Assembly recommends to the Governor-General in Council that he be pleased to accept as the ultimate policy of Government the prohibition of production, manufacture, sale, and import of intoxicating liquors, save for medical and scientific purposes. It further recommends that as the first step in carrying out this policy the Provincial Governments be directed immediately (1) to inaugurate the policy of investing the power of fixing by a system of local option, the location and number of shops selling intoxicating liquors, in either local self-governing bodies, or Licensing Boards, especially constituted for the purpose, and (2) to undertake necessary legislation in furtherance of that policy."

63. Cf. Table II, p. 289. Gross expenditure approximates \$800,000,000.

64. *Indian Statutory Commission*, cited, Vol. II, p. 207-208.

### Military Expenditure

The sum of approximately \$205,000,000 (Rs. 55.1 crores) allotted by the budget to army expenditure during 1929-30 amounted to 62.5 per cent of the total net central expenditure of British India, and to 31.5 per cent of the total net central and provincial expenditures taken together.<sup>65</sup> Indian opinion claims that this sum is unduly large, especially since it is weighted with heavy charges for the 60,000 British troops and officers maintained in India. Official opinion, however, argues that it is not excessive in view of the unique external and internal dangers to which India is exposed, and that adequate protection against these dangers requires the continued presence of British forces in India.<sup>66</sup>

### Civil Expenditure

Approximately \$200,000,000 was allotted to civil expenditure in the British-Indian budget for 1929-30. Of this amount, some \$100,000,000 (Rs. 27.32 crores) was assigned to general civil administration, \$75,000,000 (Rs. 20.59 crores) to police, jails and justice, and \$25,000,000 (Rs. 6.83 crores) to pensions.<sup>67</sup> Nationalist opinion claims that these sums are excessive, resulting from the introduction of Western standards of government expenditure into a country incapable of supporting the burden entailed. The salary and pension items in these charges are held to work especial hardship upon India, owing to the considerable proportion which is withdrawn from the country and expended in England.

The annual salary of the Governor-General, exclusive of extra allowances, is \$93,450, contrasted with the \$75,000 received by the President of the United States.<sup>68</sup> The salaries of the provincial Governors in British India range from \$24,090 to \$43,800, while the salaries of the State Governors in the United States range from \$3,000 to \$25,000, with the great majority centering around \$5,000.<sup>69</sup> Emoluments in the administrative services consist of a graduated scale of basic pay, overseas pay, and pension. In the civil service, for example, the scale now

in force rises steadily from a basic pay of roughly \$2,016 plus an overseas pay of \$675 in the first year to a basic pay of \$10,080 plus an overseas pay of \$1,350 in the twenty-fourth year. There are, in addition, certain extras in regard to medical attendance, furlough passages, guaranteed minimum for house rent, and the privilege of drawing the overseas pay in London at one-third above the current rate of exchange. At twenty-five years' service there is a pension of \$5,000 a year, toward which the civil servant contributes 2½ per cent of his annual salary while in service.<sup>70</sup> Indian opinion claims that this is one of the highest paid civil services in the world, and that in the circumstances of its poverty the expenditure thereby required is more than India can rightly afford. The point at issue here is not whether the British officials earn their salaries or not. It is rather that India's officialdom is being paid on a scale well above the market rate at which such services can be bought of Indians. For this reason it is held that under a responsible government important savings to the Indian exchequer will be made in connection with the salaries of administrative officials.<sup>71</sup>

Official opinion, on the other hand, argues that the \$200,000,000 allotted to civil expenditure is not large when the size of British India is taken into consideration. Even this sum is in part accounted for by the large outlay required for the upkeep of the land revenue system, which has socially constructive returns, as in the case of famine relief, that place it in a very different category from a mere cost of collection charge.<sup>72</sup> Pensions are a diminishing amount, temporarily swollen by officials who took advantage of permission accorded by the Reforms to retire prematurely on proportionate pension. Members of services, now recruited solely in India, in which the Indian element is already predominant, are included among the pensioners, while even in the reserved services the Indian element is steadily grow-

70. *Report of the Royal Commission on the Superior Services in India* (Chairman: Viscount Lee of Farnham; London, H. M. Stationery Office, 1924), p. 101.

71. As an earnest of this reform, the All-India Congress included among the items of its program adopted at the Karachi session on March 31, 1931 a provision that civil department expenditures and salaries should be substantially reduced, with no civil servant to be paid above the Indian equivalent of \$200 monthly. (*New York Times*, April 1, 1931.)

72. Cf. p. 280.

65. *Ibid.*, p. 216.

66. This question of army expenditure will be treated in detail in the next issue of *Foreign Policy Reports*.

67. Cf. Table II, p. 189.

68. *India Office List*, 1931, p. 244.

69. *Ibid.*, p. 244-45; *Statesman's Year-Book*, 1931, p. 560, 586.



ing. Similarly, as regards salaries, the actual number of British officials employed in the Indian administration is very small. In the higher ranks there are only 3,500 British officers out of a total of 5,250, and this number is being progressively reduced as Indianization of the services proceeds. In the whole civil administration there are only 12,000 Europeans out of a total approaching a million and a half.<sup>73</sup> When the contribution that these comparatively few British civil servants have made toward the development of an efficient administration is properly assessed, it is claimed that their cost has not been excessive.

### The Public Debt

British opinion argues that the burden of nearly \$55,000,000 (Rs. 15.43 crores) allotted to service of the debt is not heavy when the uses to which the capital borrowings have been put are analyzed. The public debt of British India has been largely incurred for the purpose of developing public utility enterprises of a productive nature, the profits on which have not only covered the full interest charges but have also yielded a substantial income to the State. On March 31, 1931 the total interest-bearing obligations of the Government of India, amounting to \$4,235,000,000, were covered by total interest-yielding assets of \$3,421,000,000, a ratio of 80.8 per cent.<sup>74</sup>

73. *Indian Statutory Commission*, cited, Vol. I, p. 46.

74. Cf. "The Public Debt of India," *Indian Information Series* No. 46 (British Library of Information, New York), p. 1, for following table:

<i>Obligations and Assets of the Government of India</i> (March 31, 1931)		
	<i>In Rs. Crores</i>	<i>In Millions of Dollars</i>
<i>Interest-bearing obligations:</i>		
(1) <i>In India:</i>		
Public Debt (including short-term Treasury Bills) .....	468.5	1,710
Other obligations (including savings bank, cash certificates, provident funds, depreciation and reserve funds) .....	174.9	638
Total in India .....	643.4	2,348
(2) <i>In England:</i>		
Loans .....	421.3	1,537
Other items (including capital value of liabilities undergoing redemption by way of "terminable railway annuities") .....	95.7	350
Total in England .....	517.0	1,887
Total interest-bearing obligations .....	1,160.4	4,235
<i>Interest-yielding assets:</i>		
Capital advanced to railways .....	745.3	2,720
Capital advanced to other commercial departments .....	23.4	85
Capital advanced to provinces .....	149.1	544
Capital advanced to Indian States and other interest-bearing loans ..	19.6	72
Total interest-yielding assets .....	937.4	3,421

The two chief obligations include capital advanced to the railways and to the provincial governments. British India's government railway system constitutes one of the largest business enterprises in the world, with a capital of \$2,720,000,000, and it is argued that the money raised for this purpose may be reasonably regarded as the capital of a great business rather than as a national debt in the ordinary sense. Over and above full interest on capital invested, and the payment of all working expenses, depreciation reserves, and other outgoings, the railways normally earn substantial surplus profits, which are available for credit to the general revenues, and thus for the relief of the Indian taxpayer. The bulk of the \$544,000,000 advanced to the provincial governments is invested in irrigation works which, apart from their great economic value as a safeguard against famine and as a means of increasing prosperity, are financially a profitable investment, showing a substantial surplus after full interest charges have been deducted. Developments of this nature require large imports of machinery and materials, necessitating large capital expenditure abroad. It is therefore not unnatural that some considerable portion of this sum should be met by external loans, even though it has been the practice to raise in India each year a Government rupee loan designed to attract the Indian funds available for investment in such issues.<sup>75</sup>

Reference to the Government of India's current balance sheet, however, does not adequately settle the matter of British India's public debt to the Indian mind. The ratio of 80.8 per cent noted previously has not always been so favorable; there have been unproductive items charged against Indian revenues in the past, the justice of which Indians seriously challenge, but which have been paid off and forgotten. Wars fought outside India's frontiers for Imperial purposes, wars against the Indian States, and even the cost of subduing the Indian Mutiny have been charged upon Indian revenues. Moreover, although the capital invested in the railways is normally yielding a substantial current surplus, this situation has not always existed. On the contrary, from 1858

75. *Ibid.*, p. 2.

to 1900 the railways were usually incurring losses which were charged upon the Indian budget, in accordance with a Government guarantee of  $4\frac{1}{2}$  or 5 per cent to the bondholders (chiefly foreign) who supplied the original capital. Furthermore, even the current charges upon the unproductive portion of British India's public debt are in large part challenged by Indian opinion, especially the \$500,000,000 war gift to England, as well as other expenditures incurred by India in connection with the war. These so-called unjust charges upon Indian revenues have been recently investigated by a Financial Obligations Committee appointed by the All-India Congress, which arrives at a grand total of nearly \$2,652,000,000 (Rs. 729.4 crores) expended by the Government of India without equivalent return to the Indian people, and which should therefore be returned by Great Britain.<sup>76</sup> Finally, it must be borne in mind that \$1,537,000,000 of British India's current public debt comprises sterling loans floated in England and chiefly owned by British bondholders. While it is true that the floating of external loans, if the funds realized therefrom are wisely invested in productive enterprises, is not necessarily a harmful economic procedure, Indian opinion is not satisfied that India's capital resources have been fully tapped under British rule. Only under a responsible government, calling out full popular allegiance and support, Indians argue, will it become possible to mobilize India's capital resources to their fullest extent for use in India.

#### India's Claim for an Impartial Scrutiny of its Debt

Mahatma Gandhi's plea for an impartial examination of British financial transactions in India, expressed in his opening speech at London, emphasized the debt claims set forth by the Financial Obligations Committee of the All-India Congress. The committee argues that British India's "public debt" is not a "national debt" in the accepted sense of the term, since it was not contracted with the assent of the Indian people but is the result of the acts of representatives of the British nation, and that therefore it becomes necessary at this juncture to examine these

liabilities with reference to their justice and propriety through the appointment of an impartial tribunal.<sup>77</sup> In support of this contention, the committee instances the assumption by Great Britain of Ireland's obligations under similar circumstances.<sup>78</sup> The committee contends that such an arrangement is in no sense a repudiation of debt, and emphasizes its willingness to accept all liabilities which have been incurred for the benefit of the Indian people.<sup>79</sup> On this basis, the committee analyzes the financial obligations between Great Britain and India and, taking only the most clearly authenticated cases, concludes that Indian revenues have been charged unjustly with a total of Rs. 729.4 crores. The various items under this claim may be summarized as follows:

- (1) external wars under the East India Company and the Crown, Rs. 72.5 crores; (2) transactions in connection with the capital stock of the East India Company, 37.2 crores; (3) cost of the "Mutiny," 40 crores; (4) miscellaneous charges, 20 crores; (5) charges in respect of Burma, 82 crores; (6) European war cost and gift, 359.7 crores; (7) Reverse Councils losses, 35 crores; (8) claims in respect of railway transactions, 83 crores.<sup>80</sup>

In regard to the first of these claims, it has been asserted that the wars were fought in the interests of India's security. The cost of subduing the Mutiny might be argued as expenditure incurred in the maintenance of peace and order. The greater part of the Burmese charges cannot be pressed unless Burma is separated from India, as one member of the committee himself admits.<sup>81</sup> It is difficult to question the validity of the war gift when no leader of public opinion in India actively opposed it at the time of its grant, while a number of Indian leaders very actively supported it. Similarly, British opinion would argue that the portion of the war cost borne by Indian revenues was as much for the protection of India as of Great

77. *Ibid.*, p. 2-4.

78. As arranged by the Ireland (Confirmation of Agreement) Act of 1925. (*Ibid.*, p. 61-62.)

79. *Ibid.*, p. 3-4.

80. *Ibid.*, p. 60. Several of these items have already been noted. The second item refers to the redemption of the capital stock of the East India Company, and interest charges thereon until it was redeemed, which were paid out of Indian revenues by the Government of India. The Burmese charges include budget deficits and railway expenditures in Burma charged against Indian revenues. The Reverse Councils losses were incurred by the Government of India in its efforts to maintain the exchange ratio of two shillings to the rupee in 1920.

81. *Ibid.*, p. 43.

76. Report on the Financial Obligations between Great Britain and India (Bombay, All-India Congress Committee, 1931), p. 60.

Britain, and was not repudiated by Indian opinion until after the war. The last two claims rest on a charge of financial mismanagement, to which all governments are liable, the loss on the Reverse Councils being an instance of gross miscalculation, and the loss on the railways an instance of misplaced and unnecessary generosity in the offer of terms on a financial transaction.

#### BUDGETARY REFORM

Two chief budgetary problems will confront a responsible Indian government. There is first the need for greatly increased revenues to meet the demands of the nation-building services, and second the problem of distributing the control and proceeds of Indian revenues (a) as between the centre and the provinces, and (b) as between province and province.

An increase in revenues for the constructive services will first of all accrue from the savings on the defense and civil charges. These, however, will be more or less balanced by losses from the land revenue, excise, salt, and opium. The chief possibilities of additional revenue must be sought in the tariff and income tax. The customs proceeds have steadily expanded in recent years, rising from some 31 crores of rupees in 1920-1921 to more than 50 crores in recent years. Further expansion under this revenue head should be possible, depending upon a continued growth of India's foreign trade and the wisdom with which the duties are scaled. Two changes have been suggested to increase the income tax revenues: (1) the lowering of the income tax brackets, and the steepening of the rates on incomes between \$18,250 and \$36,500 (50,000 and 100,000 rupees); and (2) the taxation of agricultural income, including that from the permanently assessed areas. Each of these changes, however, involves highly controversial subjects, and is likely to meet with stiff resistance in the various legislatures from the classes affected. Experience alone will demonstrate whether the national desire to build up the government social services will prevail in the levy of this additional direct taxation. The reformed legislatures have not stinted in voting moneys for the transferred services. Responsibility for expenditure on desired

purposes normally develops the ability to levy higher taxation, which would be resisted under a foreign government.

The problem of the control and distribution of Indian revenues is equally difficult. It becomes even more complicated under a federal government including the Indian States as envisaged at the first round-table conference. On the broadest basis, it raises fundamental conflicts involving differing theories of government. In general, the Hindu Nationalists desire a strong central government holding residuary authority. The Muslims, however, desire strong provincial governments, which in the case of a number of northern and northwestern provinces will be definitely under their control, vested with residuary powers. The rulers of the Indian States largely favor this latter view. Aside from such political differences, the economic aspects of fiscal control are in themselves difficult. The growing needs, for education, public health and the rest, are in the provinces, while the expanding sources of revenue, such as the customs and income tax, are largely controlled by the central government. Considerations of administrative convenience, as well as the fact that the great ports are located outside the Muslim provinces and the Indian States, would seem to dictate that the customs should be centrally controlled. Some portion of the income tax revenues is already controlled and held by the provincial governments. It would seem that this source of revenue must increasingly be made available for the provinces, as the central expenditure (on defense, for example) decreases. In the final analysis, these are constitutional issues which must be settled at the present conference on the basis of agreements hammered out between the conflicting interests involved.

#### CURRENCY AND BANKING

The Indian currency system has proved inefficient on several occasions within recent times, involving the Government, the commercial classes, and the general public in serious losses.<sup>82</sup> The difficulty of detecting either the exact cause of the trouble or the appropriate remedy has led to heated con-

<sup>82</sup>. Anstey, *The Economic Development of India*, cited, p. 409-432.



trovery, stimulated by the fact that the system is controlled by a foreign government, which is thus open to the accusation that its policy has been dictated by external rather than internal interests. The first unsatisfactory period of this nature occurred during the last quarter of the nineteenth century, when the progressive decline in the gold value of the rupee exerted a serious strain on Government revenues in India. The second, which took place during the last two years of the World War, was induced by the extraordinary demand in India for silver, caused by unusually large exports to Europe. The last, and most serious, occurred during the post-war period up to 1925, when both price and exchange fluctuations caused widespread commercial losses, while the policy adopted by the Government involved it in serious financial loss and provoked accusations of manipulation in favor of British interests.

Three important measures designed to remedy this situation, dealing with the exchange ratio, the currency standard, and a Reserve Bank, recommended by a Currency Commission which reported in 1926, have now been partially enacted into law by the Government of India. In 1927 an act was passed fixing the exchange ratio at 1s. 6d. to the rupee, after vigorous controversy both within and without the Legislature. Popular opinion claimed that the "natural" rate was 1s. 4d., and that the two pence difference on a rupee acted as a check upon Indian exports and as a stimulus to foreign imports. Official opinion, on the other hand, argued that the Indian consumer benefited by the higher ratio, and that it materially reduced the burden of the Government's sterling payments. The same act introduced a modified gold bullion standard upon which the Indian currency system is still based. A further bill, also introduced in 1927, for the establishment of a gold bullion standard and a Reserve Bank, failed to pass the Legislature. A section of Indian opinion favored an actual gold currency, but the Government held that practical difficulties, especially the world scarcity of gold, rendered a gold coinage unwise. Even more basic differences arose regarding the constitution of the Reserve Bank's directorate. The bank was designed

to control the country's currency and credit reserves, the Government's cash balances and London remittances, and its debt and loan operations. The agrarian interests, however, feared that unless provision was made for representation from the legislatures upon the bank's directorate it would be dominated by the industrial and financial magnates of Bombay and Calcutta. The Government was unwilling to consent to this proviso, arguing that the operation of the bank would thus become involved in politics, and so withdrew the bill. The necessity of establishing a Reserve Bank before fiscal responsibility can be achieved has been reasserted by the round-table conference.<sup>83</sup> The chief problem involved is that of its control in India, the rock upon which the original bill foundered. The Congress party is determined that India's agrarian interests shall have a voice in its directorate. The present conference is faced with the difficulty of satisfying this demand without at the same time throwing the bank into the sphere of partisan politics.

Underlying this problem is the broader question of the need for extending India's banking facilities in order to make its large stores of dormant capital available for investment.<sup>84</sup> This involves, on the one hand, a widely developed educational program designed to overcome the hoarding and foster the investing habit among the Indian people and, on the other, it requires a multiplication of Indian cooperative, land mortgage, and joint stock banks. The extension of the agencies of the Imperial Bank throughout India, and the development of the cooperative and postal savings banks, has barely begun to meet these needs. It is estimated that there are still some 500 towns in India with populations of 10,000 and upwards which enjoy no modern banking facilities of any kind.<sup>85</sup> Indian interests, moreover, are anxious to overcome the practical monopoly of exchange banking for the financing of foreign trade now enjoyed by branches of the large British, foreign, and colonial banks established in India.

83. *Indian Round Table Conference*, cited, p. 215-216. Until the Reserve Bank has been constituted, the conference held that the new constitution must safeguard the Governor-General's control over currency and exchange policy.

84. Anstey, *The Economic Development of India*, cited, p. 403-409.

85. *India in 1925-26*, cited, p. 288.

### FISCAL RESPONSIBILITY

The road toward fiscal responsibility in British India has been clearly marked out by the measures already introduced under the Reforms.<sup>86</sup> In general, it requires the full assumption by the provincial and central legislatures of the financial powers retained by the executive authorities in India, and the transfer of ultimate fiscal authority from the Secretary of State in Council to the Indian legislatures.

Fiscal responsibility has progressed furthest in the provinces, where the power of the purse has been exercised since 1921-1922 by Indian Ministers charged with the transferred departments. Even in this sphere, however, the measure of authority has been strictly limited by the fact that control over part of the finances of a province cannot be effective without the power of adjusting the whole, so as to make it possible to alter the relative importance of the various items. Little or no controversy, however, is likely to arise at the conference over the question of provincial fiscal responsibility. Such reserve powers as the Governor may retain under the new constitution are not likely to infringe seriously upon the provincial legislatures' fiscal authority.

The situation as regards fiscal responsibility at the centre, however, is one of the critical issues before the present conference. The outline scheme prepared by the federal structure subcommittee at the first conference contemplated a transitional period during which the financial authority of the Government of India was to be divided between a responsible Finance Minister and the Governor-General.<sup>87</sup> In particular, the latter was to control outlay, through a Consolidated

Fund on a contract basis for a number of years, upon the reserved departments of defense and foreign affairs, service of debt, and the salaries and pensions of All-India officers, covering practically 80 per cent of central expenditure. It is unlikely that Mahatma Gandhi will consent to such a substantial reservation of fiscal authority even during the transitional period. On the other hand, a wide section of British opinion will undoubtedly insist upon the maintenance of the fiscal safeguards. It is reported, however, that a tentative solution of this dilemma was worked out in the course of the conversations preceding the Gandhi-Irwin agreement.<sup>88</sup> According to this report, the fiscal powers reserved to the Governor-General would be exercised normally on the advice of a national Finance Board, constituted by representatives of British and Indian banking and commercial institutions and of the Indian States and provinces, and presided over by an Indian Minister of Finance. In extraordinary cases, the Governor-General would have power to act on his own initiative, but such cases would be specifically defined and limited. The Finance Board would be given the right to float loans in India and to buy up British loans and investments if holders desired to sell. It would also have power to commute all civil and military pensions by a single cash payment. The formation of a Reserve Bank of India, which would manage currency and exchange, would be pushed. It is expected that relatively few years would suffice to complete these arrangements, whereupon the Finance Board would cease to function and the Finance Minister would become fully responsible to the federal legislature.

86. Cf. p. 285-288.

87. *Indian Round Table Conference*, p. 212-216.

88. *New York Herald Tribune*, June 21, 1931.